

Creative Commons Corporation

Financial Statements

Year Ended December 31, 2007

Creative Commons Corporation

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CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

Independent Auditors' Report

Board of Directors
Creative Commons Corporation

We have audited the accompanying Statement of Financial Position of Creative Commons Corporation (a nonprofit organization) as of December 31, 2007, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated February 19, 2007, we express an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Creative Commons Corporation as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "Hal S. L. S.", likely representing the auditor.

March 22, 2008

Creative Commons Corporation
Statement of Financial Position
December 31, 2007
(With Comparative Totals at December 31, 2006)

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,440,898	\$ 1,402,731
Foundation Grants Receivable	799,999	250,000
Contributions and Other Receivables	58,832	223,610
Prepaid Expenses	35,693	49,057
Total Current Assets	<u>2,335,422</u>	<u>1,925,398</u>
NONCURRENT ASSETS		
Security Deposit	7,106	-
Investments	24,929	17,066
Property and Equipment - Net	44,481	20,513
Total Noncurrent Assets	<u>76,516</u>	<u>37,579</u>
Total Assets	<u>\$ 2,411,938</u>	<u>\$ 1,962,977</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	\$ 36,570	\$ 44,254
Accrued Expenses	85,125	22,954
Notes Payable	450,000	-
Total Liabilities	<u>571,695</u>	<u>67,208</u>
NET ASSETS		
Unrestricted	86,541	972,023
Temporarily Restricted	1,753,702	923,746
Total Net Assets	<u>1,840,243</u>	<u>1,895,769</u>
Total Liabilities and Net Assets	<u>\$ 2,411,938</u>	<u>\$ 1,962,977</u>

Creative Commons Corporation
Statement of Activities
Year Ended December 31, 2007
(With Comparative Totals at December 31, 2006)

	Unrestricted	Temporarily Restricted	Total 2007	Total 2006
REVENUE AND GAINS				
Foundation Grants	\$ 751,201	\$ 1,019,049	\$ 1,770,250	\$ 207,509
Contributions	1,051,264	723,973	1,775,237	538,364
In-Kind Contributions	75,255		75,255	31,213
Contracts			-	60,000
Interest Income	12,492		12,492	7,119
Foreign Currency Translation Gain (Loss)	14,713		14,713	(23,389)
Investment Income	6,918		6,918	541
Other Income			-	10,122
Sales	486		486	684
	<u>1,912,329</u>	<u>1,743,022</u>	<u>3,655,351</u>	<u>832,163</u>
NET ASSETS RELEASE FROM RESTRICTIONS				
Satisfaction of Program Restrictions	913,066	(913,066)	-	-
Total Revenue and Gains	<u>2,825,395</u>	<u>829,956</u>	<u>3,655,351</u>	<u>832,163</u>
EXPENSES				
Program Services	2,809,486		2,809,486	1,923,679
Supporting Services				
Management and General Expenses	543,997		543,997	339,019
Fundraising Expenses	357,394		357,394	210,928
Total Expenses	<u>3,710,877</u>	<u>-</u>	<u>3,710,877</u>	<u>2,473,626</u>
CHANGE IN NET ASSETS	(885,482)	829,956	(55,526)	(1,641,463)
NET ASSETS, BEGINNING OF YEAR	<u>972,023</u>	<u>923,746</u>	<u>1,895,769</u>	<u>3,537,232</u>
NET ASSETS, END OF YEAR	<u>\$ 86,541</u>	<u>\$ 1,753,702</u>	<u>\$ 1,840,243</u>	<u>\$ 1,895,769</u>

Creative Commons Corporation
Statement of Functional Expenses
Year Ended December 31, 2007
(With Comparative Totals at December 31, 2006)

	Program Services					Supporting Services				2007 Total Expenses	2006 Total Expenses
	CC Core	iCommons Ltd	Science Commons	CC International	Learning Commons	Total Program Services	Management and General	Fund Raising	Total Supporting Services		
Salaries	\$ 433,325	\$ 75,934	\$ 155,849	\$ 117,885	\$ 113,123	\$ 896,116	\$ 174,965	\$ 202,220	\$ 377,185	\$ 1,273,301	\$ 986,640
Payroll Taxes	27,822	4,875	22,485	8,165	7,263	70,610	10,638	12,983	23,621	94,231	76,155
Employee Benefits	35,839	6,256	28,853	28,128	16,135	115,211	20,303	17,513	37,816	153,027	98,793
	<u>496,986</u>	<u>87,065</u>	<u>207,187</u>	<u>154,178</u>	<u>136,521</u>	<u>1,081,937</u>	<u>205,906</u>	<u>232,716</u>	<u>438,622</u>	<u>1,520,559</u>	<u>1,161,588</u>
Travel and Conferences	131,476	405,178	84,622	90,422	26,378	738,076	10,447	70,794	81,241	819,317	493,232
Consulting and Design	155,111	54,696	88,350			298,157	177,514	13,018	190,532	488,689	274,721
Professional Services	1,418	14,971	211,095	13,394	370	241,248	16,900	662	17,562	258,810	67,063
Occupancy	86,932	45,407	2,589	8,785	5,518	149,231	815	10,263	11,078	160,309	138,788
Technology	46,481	28,627	7,428	21,253	2,686	106,475	1,848	5,372	7,220	113,695	34,319
Legal Fees	75,255			1,068		76,323	17,897		17,897	94,220	36,154
Publicity and Communication	13,044	12,937	16,795	9,216	736	52,728	801	1,473	2,274	55,002	65,708
Insurance		15,397				15,397	43,037		43,037	43,037	42,148
Accounting Fees							12,800		12,800	28,197	11,000
Depreciation							23,850		23,850	23,850	14,269
Fund Raising Expenses	185		163	502	3,505	185		19,351	19,351	19,536	22,395
Supplies	11,599	1,692	5,750			17,461	46	1,749	1,795	19,256	49,867
Membership and Dues	6,350			504		12,100	6,959		6,959	19,059	13,335
Bank Charges		1,552	1,304	357	386	504	15,331		15,331	15,835	5,815
Printing	6,563					10,162	31	772	803	10,965	7,130
Board Cultivation and Meetings							8,804		8,804	8,804	18,346
Telephone	5,056		869	316	1,445	6,501		722	722	7,223	313
Recruiting	1,076	189	270		281	2,731	411	502	913	3,644	3,163
Other Expenses							600		600	870	
Total Expenses	<u>\$ 1,037,532</u>	<u>\$ 667,711</u>	<u>\$ 626,422</u>	<u>\$ 299,995</u>	<u>\$ 177,826</u>	<u>\$ 2,809,486</u>	<u>\$ 543,997</u>	<u>\$ 357,394</u>	<u>\$ 901,391</u>	<u>\$ 3,710,877</u>	<u>\$ 2,473,626</u>

Creative Commons Corporation
Statement of Cash Flows
Year Ended December 31, 2007
(With Comparative Totals at December 31, 2006)

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (55,526)	\$ (1,641,463)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	23,850	14,269
Donated Investments	(1,021)	(16,525)
Unrealized (Gain) on Investments	(6,842)	(541)
Gift Against Loan	(50,000)	-
(Increase) Decrease in Operating Assets		
Foundation Grants Receivable	(549,999)	2,155,000
Contributions and Other Receivables	164,778	(223,610)
Prepaid Expenses	12,453	(21,308)
Security Deposit	(7,106)	-
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(7,684)	16,474
Accrued Expenses	63,082	(3,348)
Net Cash Provided (Used) by Operating Activities	<u>(414,015)</u>	<u>278,948</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(47,818)</u>	<u>(10,022)</u>
Net Cash (Used) by Investing Activities	<u>(47,818)</u>	<u>(10,022)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
New Borrowings	<u>500,000</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>500,000</u>	<u>-</u>
NET INCREASE IN CASH	38,167	268,926
CASH, BEGINNING OF YEAR	<u>1,402,731</u>	<u>1,133,805</u>
CASH, END OF YEAR	<u>\$ 1,440,898</u>	<u>\$ 1,402,731</u>

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007

1. Summary of Organization and Significant Accounting Policies

Organization – Creative Commons Corporation (Creative Commons) is a Massachusetts charitable corporation devoted to expanding the range of creative work available for others to build upon and share. Because it can be expensive and burdensome to secure legal permission to use a copyrighted work, Creative Commons enables users of knowledge, information and culture to benefit more fully from those resources by providing free permission forms that authors of online content can use to grant permission to the public to copy, amend, distribute or otherwise utilize their works for a greater range of purposes. Creative Commons provides a range of licenses as well as web-based tools to publish and search for content that is free to use for such purposes.

The Science Commons division was launched in 2004 with the goal of making academic research more freely available. It has produced the Scholar's Copyright license which allows authors of journal articles to retain the right to self-publish their manuscripts rather than leaving control in the hands of the journal publisher. It has developed software tools that are used by universities allowing their faculty to self-archive these documents. Science Commons has also been working toward mechanisms that will allow authors to contribute data from experimental work to centralized databases where it may be accessed by other researchers and is investigating patent and data pools to further collaboration on neglected diseases.

In 2005 a UK subsidiary, iCommons Ltd, was established to provide information and support to users of open sharing practices on a global basis. iCommons hosts an annual conference, the iSummit, and provides materials and services via the Internet.

The ccLearn division was launched in late 2007. Initially, it will focus on identifying the myriad open educational resources that exist around the world and then finding ways to make the various "open" and "free" permissions interoperable.

Creative Commons' licenses have been translated and adapted for use in more than 44 countries with 16 more jurisdictions in process indicating that Creative Commons is a major player in the "free culture" environment not only in the US but on a worldwide basis.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007
(Continued)

1. **Summary of Organization and Significant Accounting Policies – continued**

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements for Not-for-Profit Organizations*. Under SFAS No. 117, Creative Commons is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of asset and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, Creative Commons considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Foundation Grants Receivable – No allowance for doubtful accounts is considered necessary since the receivables relate primarily to foundation agencies.

Contributions Receivable – Unconditional pledges receivable are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Pledges receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. No allowance for uncollectible pledges has been recorded based on management's evaluation of collections.

Investments – Investments, consisting of nationally traded securities, are stated at fair market value.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007
(Continued)

1. **Summary of Organization and Significant Accounting Policies** – continued

Property and Equipment – Creative Commons capitalizes all expenditures for property and equipment in excess \$1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives on the property and equipment.

Restricted and Unrestricted Revenue – Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services – The financial statements reflect \$75,255 for donated legal services to evaluate ongoing tax, trademark, and copyright implications of its new programs and existing services.

Income Taxes – Creative Commons is exempt from income taxes under Internal Revenue Section 501(c)(3). Creative Commons qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Functional Allocation of Expenses – Costs of providing programs and other activities are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated to the programs and supporting services by a method which best measured the relative degree of benefit. Accordingly, certain costs have been allocated between the program and the supporting services in reasonable ratios determined by management.

Reclassifications – Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007
(Continued)

2. Concentration of Credit Risk

Creative Commons maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2007, the uninsured cash balances total \$1,352,502.

3. Investments

Common Stock	\$ 24,929
The composition of investment income is as follows:	
Net Unrealized Gain	\$ 6,842
Dividends	<u>76</u>
Total	\$ <u>6,918</u>

4. Property and Equipment

Computer Equipment	\$ 71,993
Furniture and Equipment	<u>34,260</u>
Subtotal	106,253
Less: Accumulated Depreciation	<u>(61,772)</u>
Total Property and Equipment	\$ <u>44,481</u>

5. Related Party Transaction

Creative Commons received an unsecured loan from a board member of the Organization to cover general expenses during the year. The principal sum of \$500,000, without interest, was payable December 31, 2007. Any principal not paid when due bears interest at the rate of 7% per annum. During 2007, a gift of \$50,000 was given by the board member against this loan. In December 2007, an interest-free extension was requested and granted until January 31, 2008. Subsequent payment in the remaining amount of \$450,000 was made January 2008.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007
(Continued)

6. Temporarily Restricted Net Assets

Restricted as to purpose:

General Support for 2008	\$ 800,000
Learning Commons	322,175
Science Commons	301,345
iCommons Ltd	223,972
Book and Public Domain Wiki	<u>106,210</u>
Total	<u>\$ 1,753,702</u>

7. Operating Lease

Creative Commons entered into a five year building lease agreement for its program facilities in San Francisco, California expiring April 2012. For the year ended December 31, 2007, total rent expense under this lease was \$63,941. Minimum future lease payments are as follows:

<u>Fiscal Year Ending December 31,</u>	
2008	\$ 87,577
2009	90,856
2010	94,135
2011	97,414
2012	<u>28,691</u>
Total	<u>\$ 398,673</u>

8. Pension Plan

Creative Commons has a Tax Sheltered Annuity under IRC 403(b), which allows all employees to contribute through payroll deductions. Matching contributions made during the year ending December 31, 2007 totaled \$51,010.

Creative Commons Corporation
Notes to Financial Statements
December 31, 2007
(Continued)

9. Subsequent Event

As of January 1, 2008, Creative Commons no longer stands as the parent of its former subsidiary, iCommons Ltd., and does not expect to file any further consolidated tax returns. During 2007, the following steps were taken to establish iCommons' legal and financial independence:

- 1) Creative Commons enacted a resolution prohibiting its personnel from holding more than 49% of the positions on iCommons' board at any one time.
- 2) Creative Commons is no longer the sole Member of iCommons corporation. Three additional Members were appointed by iCommons so that Creative Commons has only a minority vote (25%) in regard to the appointment of iCommons' officers and directors. Two further Members are in the process of appointment as well.
- 3) The two organizations no longer share any common officers or operational staff. Only a minority of iCommons' board members are also Creative Commons personnel.
- 4) Creative Commons provided no financial support to iCommons during 2007. iCommons reimbursed Creative Commons for the cost of all services and personnel provided to it during the year and, further, each organization paid its own expenses for the few consolidated events that were held during the year.

While Creative Commons intends to remain a Member of the iCommons community, the latter organization is now able to sustain itself independent of Creative Commons influence or control.